

# United States Direct Investments

## in Foreign Countries

**T**HE United States equity in direct investments in foreign countries at the end of 1950 amounted to \$11.8 billion, based on tabulations of reports submitted in the Census of American Direct Investments in Foreign Countries undertaken by the Department of Commerce in 1951. This compares with a valuation for such investments of \$7.9 billion in 1943, \$6.7 billion at the end of 1936, and \$7.5 billion at the end of 1929.

The 1950 census data were tabulated from returns of more than 2,800 reporters covering more than 8,000 foreign organizations. The value of the American investments is given as reflected on the books of the foreign organizations, converted into dollars according to the exchange rates used by the United States parent companies. This is discussed in greater detail in the technical notes appended. The book values of these properties are generally much lower than either of two alternative methods of valuation—market value or replacement value—would have been in recent years. However, there is no practical way to obtain either of the other valuations, since necessary data are not available.

A principal feature of book values is that fixed assets appear at their depreciated original cost, which in the aggregate is much less than their replacement cost at present price levels.

Market values cannot be established for most foreign investments because there is no open market for such aggregates of plant and equipment. The substitute of using current quotations of prices of publicly traded security issues as a yardstick for valuation is not available either, since most foreign enterprises are owned either entirely by their parent companies, or jointly with foreign companies.

### Investments in Western Hemisphere predominant

For the period 1929 to 1950, covered in table 1, United States direct investments in the Western Hemisphere consistently accounted for about 70 percent of all direct investments abroad.

The preponderance of American direct investments in this area reflects the development of nearby sources of raw materials for use in the expanding economy of the United States, and also the American participation in the industrial development of countries such as Canada, Venezuela, and Brazil, which have been growing at a comparatively rapid rate.

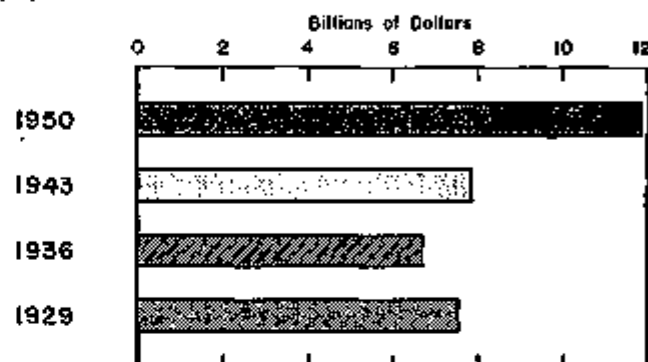
Direct investments in the Latin American republics increased by more than two-thirds from 1943 to 1950 and accounted for almost 40 percent of the total at the end of 1950. Investments in these countries in the petroleum and manufacturing industries more than doubled in the seven-year period and accounted for \$1.3 billion of the total increase of \$2.0 billion.

In Canada, direct investments increased by 50 percent from 1943 to 1950, mainly in manufacturing enterprises and, to a lesser extent, in petroleum. Much of this increase was based on the reinvested earnings of the very large investments already established in Canada in 1943.

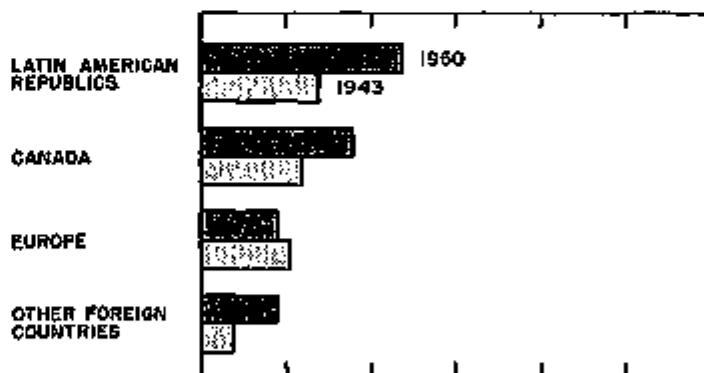
Although there was very little change in the valuation of direct investments in Western Europe between 1943 and 1950

## Direct Foreign Investment of the United States

The value at the end of 1950 was about fifty percent higher than 1943



### Major increase was for development of Western Hemisphere resources



### Investments flowed mainly to expand manufacturing and extractive industries



NOTE.—MR. ZETTLER AND MR. CUTLER ARE MEMBERS OF THE BALANCE OF PAYMENTS DIVISION, OFFICE OF BUSINESS ECONOMICS.

Table 1.—Value of United States direct investments in foreign countries, by country and type of industry for 1950, and country totals for 1943, 1936, and 1929

(Millions of dollars)

Areas and countries	Agriculture	Mining and smelting	Petroleum	Manufacturing	Transportation, communication and public utilities	Trade	Finance and insurance	Miscellaneous	1950 total	Totals only <sup>1</sup>		
										1943	1936	1929
Canada	30.6	334.5	435.1	1,881.4	264.4	239.1	313.2	72.1	3,594.1	2,377.4	1,951.6	2,010.3
Latin American republics:												
Argentina	(2)	(2)	45.5	140.0	77.0	34.9	22.0	7.0	334.0	383.1	448.3	331.8
Bolivia	(2)	6.1	(2)	(2)	2.4	2.9	(2)	(2)	11.4	13.2	18.3	61.0
Brazil	(2)	(2)	112.4	370.2	137.0	70.1	21.7	7.0	627.0	732.7	194.3	183.0
Chile	(2)	340.0	(2)	28.4	137.0	14.6	1.5	(2)	628.0	328.8	453.7	422.0
Colombia	(2)	(2)	111.7	24.8	20.1	8.0	3.0	(2)	198.5	117.0	107.5	124.0
Costa Rica	(2)	(2)	3.8	(2)	10.8	2.5	(2)	(2)	38.1	30.4	12.3	22.2
Cuba	229.0	(2)	20.4	71.8	270.5	18.7	(2)	0.8	639.4	428.3	608.3	819.0
Dominican Republic	(2)	(2)	(2)	20.2	10.7	(2)	(2)	2.3	105.7	73.4	90.7	50.3
Ecuador	(2)	(2)	(2)	6.3	5.3	1.7	1.6	(2)	14.2	10.8	4.0	11.8
El Salvador	(2)	(2)	2.3	(2)	18.8	(2)	(2)	(2)	18.4	14.9	17.2	28.5
Guatemala	(2)	(2)	3.5	(2)	73.3	3.3	(2)	(2)	308.9	88.9	52.4	70.0
Haiti	7.9	(2)	(2)	(2)	2.3	(2)	(2)	(2)	12.7	14.1	8.7	14.2
Honduras	(2)	(2)	(2)	(2)	3.8	(2)	(2)	(2)	61.0	37.0	34.4	71.5
Mexico	3.0	110.4	12.7	118.1	307.2	29.7	2.3	6.2	388.0	288.3	478.5	682.5
Panama	(2)	(2)	174.7	1.7	130.1	20.6	1.5	(2)	348.7	110.3	20.7	28.5
Peru	(2)	55.1	(2)	15.5	4.6	12.0	(2)	(2)	190.0	70.8	66.1	123.8
Uruguay	(2)	(2)	3.3	33.1	1.6	4.2	12.4	(2)	55.8	5.6	13.9	27.9
Venezuela	(2)	(2)	245.6	23.8	10.0	23.6	13.1	6.7	301.4	272.5	188.3	232.5
Other Latin American republics	(2)	(2)	4.7	8.0	1.1	(2)	(2)	(2)	15.3	13.3	0.6	20.6
Total	478.6	817.4	1,390.0	774.1	1,044.1	243.3	85.3	46.2	4,578.0	2,731.2	2,903.1	3,451.9
Western Europe:												
Belgium	(2)	(2)	17.0	94.8	(2)	18.0	(2)	1.8	124.8	82.9	124.0	104.2
Denmark	(2)	(2)	18.7	7.9	(2)	8.7	(2)	(2)	21.0	21.0	12.5	15.3
France	(2)	3.3	82.5	184.2	6.4	8.0	11.2	6.5	285.1	187.4	168.7	145.8
Germany	(2)	(2)	37.8	124.0	3.6	16.3	2.6	12.3	202.1	612.8	227.5	215.5
Italy and Trieste	(2)	(2)	28.6	19.0	(2)	1.4	3.6	1.5	63.0	85.0	70.2	113.2
Netherlands	(2)	(2)	43.5	22.7	(2)	12.2	2.5	2.3	85.4	60.6	18.8	43.2
Norway	(2)	(2)	0.4	5.1	1.0	1.4	(2)	(2)	26.3	30.1	28.7	23.0
Portugal	(2)	(2)	5.0	2.2	1.8	1.4	(2)	(2)	14.0	13.5	5.7	11.5
Spain	(2)	(2)	15.3	(2)	(2)	2.3	(2)	(2)	32.7	124.1	83.5	72.2
Sweden	(2)	(2)	24.5	28.9	(2)	1.0	(2)	1.5	57.9	32.8	24.5	18.2
Switzerland	(2)	(2)	6.5	10.1	(2)	8.7	(2)	(2)	26.5	43.7	8.5	16.9
United Kingdom	(2)	3.3	122.7	635.2	10.6	102.0	16.6	50.0	828.7	518.3	1,474.1	1,465.2
Other Western European countries	(2)	1.1	23.5	13.1	1.2	10.8	(2)	2.8	40.3	112.5	33.0	37.9
Total	8.8	17.7	446.8	970.5	23.0	186.0	33.1	92.0	1,773.9	1,785.6	1,958.5	1,262.5
Eastern Europe	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	289.0	63.2	88.7
Western European dependencies:												
Belgium, Portuguese, and Spanish dependencies	(2)	4.4	5.3	(2)	1.1	2.0	(2)	2.2	9.0	5.5	10.5	9.0
British dependencies in Africa	4.4	25.2	11.4	7.7	1.2	3.0	(2)	(2)	40.9	28.9	2.3	2.9
British dependencies in Western Hemisphere	3.0	31.9	12.0	1.4	14.7	2.7	(2)	(2)	60.9	33.6	44.0	57.0
Other British dependencies	5.7	23.4	148.8	5.0	8.8	2.0	(2)	(2)	180.5	29.4	27.0	27.1
French North Africa	(2)	(2)	11.0	(2)	3.0	9.9	(2)	1.1	14.5	8.3	n. s.	n. s.
Other French dependencies	(2)	(2)	15.9	(2)	3.3	1.2	(2)	(2)	17.5	4.6	12.8	12.9
Netherlands dependencies	(2)	8.2	67.3	(2)	3.3	3.3	(2)	(2)	94.0	120.1	68.8	68.8
Total	9.3	87.7	202.4	7.8	38.1	31.1	(2)	1.2	428.3	231.5	170.1	180.0
Other:												
Australia	(2)	(2)	(2)	94.8	(2)	13.0	(2)	7.3	107.9	114.1	80.0	110.2
Burma, Ceylon, Iraq, and Thailand	n. s.	n. s.	n. s.	n. s.	n. s.	1.0	(2)	1.0	5.0	2.3	n. s.	n. s.
China	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	n. s.	40.7	90.0	113.5
Egypt and Anglo-Egyptian Sudan	(2)	(2)	25.2	8.0	(2)	2.8	(2)	2.1	33.7	16.3	5.3	5.3
Malaya, British, Dutch, and French	(2)	(2)	6.1	(2)	(2)	(2)	(2)	(2)	5.0	1.1	n. s.	n. s.
India	(2)	(2)	13.0	16.0	2.0	6.0	(2)	1.2	37.7	41.3	28.7	32.7
Indochina	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	4.5	n. s.	n. s.	n. s.
Indonesia	(2)	(2)	30.7	9.7	(2)	1.7	(2)	2.6	38.2	(2)	(2)	(2)
Israel	(2)	(2)	6.8	9.9	(2)	2.1	(2)	3.7	12.4	18.3	28.6	13.3
Japan, Korea, and Formosa	(2)	(2)	12.5	6.7	(2)	4.4	(2)	1.7	20.0	32.9	66.7	60.7
Libya	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	32.0	17.6	n. s.	n. s.
New Zealand	(2)	(2)	(2)	9.2	(2)	4.4	(2)	(2)	24.8	13.7	n. s.	n. s.
Pakistan	(2)	(2)	(2)	(2)	(2)	4.0	(2)	1.1	7.8	n. s.	n. s.	n. s.
Philippines Republic	(2)	(2)	27.4	28.4	47.4	22.8	(2)	1.4	149.2	104.0	92.2	79.9
Saudi Arabia, Iraq, Jordan, Lebanon, and Syria	(2)	(2)	249.3	(2)	1.1	1.7	(2)	2.2	254.0	154.5	17.8	17.1
Union of South Africa	(2)	(2)	44.8	44.0	(2)	13.5	(2)	2.1	125.9	412.9	143.1	170.8
Total	83.7	32.9	556.8	319.7	53.5	79.0	2.9	24.4	1,354.3	484.5	451.0	634.0
Total, all areas	562.3	1,112.6	3,438.8	3,844.6	1,428.2	768.8	432.7	237.8	11,844.1	7,801.6	8,698.5	7,627.7

n. s. s. Not separately shown.

n. s. Valuations for properties in Eastern Europe and China were not generally available for the end of 1950.

1. Sources for the data shown for 1929, 1936, and 1943 are as follows:

1929—American Direct Investments in Foreign Countries, Trade Information Bulletin No. 731, U. S. Government Printing Office, Washington: 1930

1936—American Direct Investments in Foreign Countries—1936, Economic Series No. 1, U. S. Government Printing Office, Washington: 1938

1943—Census of American-Owned Assets in Foreign Countries, U. S. Treasury Department, Office of the Secretary, U. S. Government Printing Office, Washington: 1947

The total reported in the Treasury publication was adjusted to exclude non-profit organizations and is adjusted upward by \$663 million, entirely in Canada, to make it comparable with estimates for prior years and the census totals for 1950. This addition adds back into the 1943 data the United States equity in certain Canadian companies in which American stockholders owned more than 50 percent of the voting securities.

2. Included in total.

3. Less than \$50,000.

4. Includes Luxembourg.

5. Includes Gibraltar and Malta.

6. Portuguese Africa only.

7. Includes French and Netherlands West Indies.

8. Includes French Indo-China, French Oceania, and Thailand.

9. Includes all of French Africa, Belgian Congo, Italian Africa, Spanish Africa, Ethiopia, Liberia, and Tunisia.

10. Includes Netherlands East Indies which appears as Indonesia in 1950.

11. Includes New Zealand.

12. Includes Ceylon and Pakistan.

13. Included in Netherlands dependencies.

14. Includes Jordan.

15. Includes Cyprus, Iraq, and Syria.

16. Includes British Arabia, Iraq, and Syria.

17. Includes Bahrain and Iran.

18. Includes all other British Africa.

19. Includes \$26.3 million shown as "International."

Source: U. S. Department of Commerce, Office of Business Economics.

This article gives the first tabulations made in the Census of American Direct Investments in Foreign Countries, conducted by the Office of Business Economics. Complete tabulations of the data will be published in a bulletin, including such information as total assets and liabilities, income, capital movements, reinvested earnings, and foreign income taxes paid.

These are the first comprehensive statistics collected in this field since the 1943 census conducted by the Treasury Department, and provide a much-needed new benchmark for current estimates of the value of direct investments abroad as well as for related income and capital movements. Some of the new information, particularly the more detailed data for individual countries and industrial subdivisions, will be especially useful in studies related to the role of private foreign investments in the development of foreign countries.

as shown in table 1, there were net capital outflows from the United States and reinvested earnings of over \$600 million in this period which were offset mainly by the effects of currency devaluations and war losses. Investments in France and the United Kingdom increased in value by over \$400 million, and the increase would appear larger were it not for the depreciation of the dollar value of assets as a result of currency devaluations. Thus, in spite of the uncertainties in the European economic situation, American direct investments in the two principal countries of that area have increased proportionately as much as in the rest of the world as a whole. A substantial amount of this postwar investment in Europe has been in manufacturing and petroleum refineries, which helped to reduce Europe's demand for dollar exchange.

Investments in the Persian Gulf area increased by nearly \$700 million from 1943 to 1950, reflecting the development of petroleum resources. Other large increases occurred in the Union of South Africa, Australia, Liberia, and the Philippine Republic.

### Investments spread to new countries

Although table 2 shows that over 80 percent of total outstanding investments in 1950 are concentrated in relatively few countries, American investments may be found in nearly all parts of the world. Furthermore, a comparison of the figures for 1929 and 1950 indicate that there was some change in the countries attracting United States investments. In the former year about 60 percent of the total investments were in 5 countries: Canada, Cuba, Mexico, the United Kingdom and Chile. By 1950 Brazil, Venezuela and Saudi Arabia ranked among those with the most investment. Some of the smaller countries, while not in the top group as to total investment, nevertheless showed a more than the average rise.

### Manufacturing leads in foreign investments

Despite the postwar spurt in petroleum investments, the manufacturing industry maintained its position as the most important single industry in the field of American direct investments in foreign countries. In addition, much of the investment in the petroleum industry is in refineries, which are usually considered a manufacturing operation.

Table 3 on page 10 shows that most of the investment in manufacturing has gone to countries which were either well developed industrially or were making rapid strides in that direction. This reflects the fact that a major prerequisite for the establishment for manufacturing branches or subsidiaries is a sufficiently large market to permit the operation of facilities of an efficient size. In the case of many countries, notably in the British Commonwealth, there was also the desire to preserve or enlarge markets which could not be

reached by goods exported from the United States because of tariff barriers or exchange restrictions.

In less-developed countries investments in manufacturing appear to follow the development of more basic resources, after the latter have raised incomes sufficiently to create the necessary demand. Our investments in some of the major countries in Latin America as well as in the Philippines and some of the British dominions are examples of this process.

Apparently the relatively low cost of unskilled labor in undeveloped countries is a less important factor in attracting American investments than a large market for finished products and a supply of skilled or semi-skilled labor.

Table 2.—Investment in specified countries, 1943 and 1950

(Millions of dollars)			
Country	1943	1950	Increase
Canada.....	3,984	4,378	1,184
Persian Gulf Area <sup>1</sup> .....	720	61	659
Venezuela.....	961	373	608
Brazil.....	927	233	394
United Kingdom.....	810	519	321
Panama <sup>2</sup> .....	340	110	239
Chile.....	630	328	202
France.....	295	107	119
Mexico.....	308	280	112
Cuba.....	938	626	113
Union of South Africa.....	140	80	60
Australia.....	138	114	31
Colombia.....	194	117	77
Portugal.....	140	71	69
Liberia <sup>2</sup> .....	92	18	54
Philippine Republic.....	140	96	54
Total for specified countries.....	9,522	5,446	4,396

1. Includes Saudi Arabia, Iraq, Jordan, Lebanon, Syria, Aden, Bahrain, Kuwait, and Qatar.

2. Increases represent mainly ships registered under foreign flags and owned mainly by subsidiaries of United States corporations.

Source: U. S. Department of Commerce, Office of Business Economics.

One of the more important results of this new census is the breakdown of broad industry groups into the major component sub-groups; the last information of this type was in the previous Commerce survey of 1940.<sup>1</sup> For the manufacturing industry, table 4 shows a rather even distribution of investment in 1950 over a wide range of manufactured products.

Total investment in manufacturing abroad changed very little from 1929 to 1943, but from 1943 to 1950 it nearly doubled. In 1929 investments in food processing, electrical machinery and paper and pulp producers accounted for 40 percent of the manufacturing total. In 1950 the share of these industries was reduced to about 33 percent, although each had grown in total value.

Between 1929 and 1940 other industry groups, such as automotive products, chemicals, and primary and fabricated

1. American Direct Investments in Foreign Countries—1940, United States Government Printing Office, Washington, 1942.

metals were growing in importance. Between 1940 and 1950 there was an increase of approximately \$2.0 billion in all manufacturing enterprises, and of this total the largest increases were in chemicals (\$300 million), food products (\$250 million), machinery (\$225 million), automotive products (\$210 million), electrical equipment (\$175 million), and rubber products (\$120 million). In addition, major investments were made in "other industries", such as textiles, building materials, abrasives, photographic equipment, leather, printing, precision equipment and tobacco products which were not important fields for investment prior to 1940.

### Extractive industries show fastest growth

Aside from the development of foreign markets for products manufactured by American companies, the second major stimulus to foreign investment has been the need to develop new sources of supply for raw materials.

The greatly expanded output of American industry as well as the increased requirements abroad has made it necessary to look more and more toward foreign sources for certain raw materials for which the United States was formerly a major source of supply. In particular the need for petroleum and its products has resulted in a large increase in investments in Venezuela and in the Persian Gulf Area. Along with these investments in raw materials production, there have been additional investments in refining, processing and distributing these raw materials.

Table 3.—Rise in manufacturing investments in principal countries, 1943 to 1950

(Millions of dollars)

Country	1940	1943	Increase
Canada	1,881	941	940
United Kingdom	535	307	228
Brazil	270	08	201
Mexico	118	22	96
France	101	75	26
Australia	95	48	47
Argentina	140	101	40
Union of South Africa	44	11	33
Total for 8 countries	3,286	1,571	1,715
Total for world <sup>1</sup>	3,721	1,841	1,880

1. Excluding investments in Germany, Austria, Yugoslavia, Eastern Europe and China, which were seriously affected by war damage and nationalization.

Source: U. S. Department of Commerce, Office of Business Economics.

The mining and smelting and petroleum industries, as defined in this Census, are not exclusively extractive industries. Because some of the major corporations operating in extractive industries combine several stages of production, transportation and distribution, the financial reports used in this census do not permit a segregation of the various activities. A partial breakdown of the investments in the petroleum industry may be obtained, however, by separating the investments in those countries in which crude petroleum is not produced. At the end of 1950, the investments in the latter countries amounted to \$1.1 billion.

With these adjustments, the remaining United States investments in mining and smelting and petroleum increased from \$1.7 billion in 1943 to \$3.4 billion in 1950. Of this increase 88 percent was distributed among three countries and the Persian Gulf Area.

### Public utilities attract less capital

Investment in public utilities and transportation, while maintaining its third ranking position, showed an increase of

only \$37 million over the 1943 figure. Almost 75 percent of the total investment in public utilities and transportation at the end of 1950 was located in Latin American countries, and 20 percent was in Canada.

About one-half of the investment in this industry was in electric light, power and gas, about 10 percent in communications and about 40 percent in transportation excluding facilities for the movement of petroleum products. In all these industrial subdivisions about 95 percent was invested in the Western Hemisphere. In 1929, almost 90 percent was in the Western Hemisphere.

Investments in public utilities in recent years have been deterred because in many foreign countries this industry has

Table 4.—Value of United States direct investments in foreign countries by area and industry groups, 1950

(Millions of dollars)

Industry	Total, all areas	Canada	Latin American republics	Western Europe	Western European dependent areas	Other countries
<b>Agriculture, total</b>	644.9	24.6	475.0	0.6	9.3	35.7
Fruit	164.5	147.7	1.1	1.1	1.1	1.1
Rubber	59.1	1.1	58.0	1.1	1.1	1.1
All other agriculture	40.6	20.5	20.1	1.1	1.1	1.1
<b>Mining and smelting, total</b>	1,113.5	354.3	677.4	17.7	87.7	55.4
Iron	88.5	20.5	68.0	(1)	1.1	4.0
Gold, silver, and platinum	74.3	21.9	21.8	2.2	(1)	23.4
Other metals	402.4	275.1	475.0	5.4	77.1	24.0
Nonmetallic minerals	88.5	12.7	50.0	9.1	10.0	1.1
<b>Petroleum, total</b>	3,438.9	418.1	1,300.0	446.6	292.4	893.5
Crude extraction	n. s. s.	n. s. s.	100.1	14.9	232.0	474.5
Refining and processing	2,051.8	352.7	n. s. s.	237.3	n. s. s.	n. s. s.
Distribution	n. s. s.	n. s. s.	213.5	175.0	58.4	200.1
Tankers	202.8	35.7	177.5	11.6	1.1	60.0
Pipelines	102.3	20.7	8.9	1.1	1.1	158.7
<b>Manufacturing, total</b>	3,544.5	1,891.4	774.1	970.6	7.8	210.7
Food	404.8	213.0	181.0	05.5	1.1	34.2
Paper and allied products	378.2	267.0	4.5	4.5	1.1	1.1
Chemicals and allied products	519.3	103.3	170.9	103.3	1.1	24.8
Rubber products	161.6	80.0	80.0	30.7	2.8	28.8
Primary and fabricated metals	352.9	248.0	19.3	112.3	1.1	2.0
<b>Machinery</b>	410.9	203.8	12.2	170.9	1.1	25.7
Electrical machinery, equipment, and supplies	200.0	140.5	78.4	150.5	1.1	13.0
Motor vehicles and their equipment	484.0	100.0	82.9	101.3	1.1	80.5
All other manufacturing	600.9	259.5	158.7	125.7	1.1	20.3
<b>Transportation, communication and public utilities, total</b>	1,428.2	281.4	1,044.1	28.0	18.1	53.6
Railroads	285.0	91.8	180.4	1.1	1.1	1.1
Water transportation	180.3	11.7	152.4	10.2	1.1	1.1
All other transportation	12.9	16.8	31.7	0.5	1.1	4.0
Communication	161.1	11.2	137.4	0.1	3.4	4.0
Electric light, power, and gas	739.3	134.4	640.2	2.2	1.1	35.1
<b>Trade, total</b>	758.5	248.1	240.3	188.0	14.1	75.0
Wholesale trade	179.2	179.2	180.2	102.2	5.1	42.4
Retail trade	290.4	80.9	61.1	63.8	8.0	16.6
<b>Finance and insurance, total</b>	438.7	313.2	88.3	38.1	1.1	2.9
Banking and other finance	170.5	105.0	37.8	23.2	1.1	4.2
Insurance companies	70.4	12.4	42.8	12.8	1.1	2.4
Insurance	198.8	194.9	4.7	3.1	1.1	3.7
<b>Miscellaneous, total</b>	237.9	73.1	48.2	92.8	1.2	24.4
Real estate	37.3	0.5	7.5	10.5	1.1	2.2
Motion pictures	111.0	22.8	10.4	56.4	1.1	15.5
All other	89.0	30.7	24.3	19.1	1.1	6.5

n. s. s. Not shown separately.

1. Less than \$50,000.

2. The classification of petroleum investment into the major branches of the industry is based on the major activity of each reported foreign enterprise; the effect of this is to understate the investment in distribution, tankers, and pipelines and to overstate the investment in producing and refining, the latter being the major activities of most large integrated foreign enterprises.

Source: U. S. Department of Commerce, Office of Business Economics.

become increasingly regarded as a field for local private or government development. Also, in many countries rates of return on these investments have been low because of restrictions imposed by foreign governments. To a large extent postwar investments in this field were financed through foreign loans from the International Bank and the Export-

Import Bank. Thus, United States capital is still instrumental in increasing such investments, although not much is done through private direct investments. In Eastern Europe and China such investments were actually or virtually confiscated and in a few other countries, such as Spain and Argentina, some properties were sold to local governments.

### Subsidiaries predominate in manufacturing

The form of organization most frequently adopted by American corporations for their foreign operations is the

Table 5.—Direct investments in mining and smelting and petroleum,<sup>1</sup> 1948 and 1950

(Millions of dollars)

Country	1950	1948	Increase
Persian Gulf Area <sup>2</sup> .....	722	43	679
Venezuela <sup>3</sup> .....	905	344	561
Canada.....	762	343	419
Chile.....	341	218	123
Total for selected countries.....	2,729	1,183	1,546
Total for world.....	5,412	1,786	3,626

1. Adjusted to exclude petroleum investments in countries in which crude petroleum is not produced.

2. Includes Saudi Arabia, Iraq, Jordan, Lebanon, Syria, Aden, Bahrain, Kuwait and Qatar.

3. Includes agriculture.

Source: U. S. Department of Commerce, Office of Business Economics.

foreign-incorporated subsidiary. Of the approximately 8,000 foreign organizations reported in the Census, about 5,600 were foreign-incorporated enterprises. In both Canada and Western Europe 90 percent of the direct investment is in subsidiaries; about 58 percent of the value of all foreign subsidiaries and 64 percent of the number is in these areas. The principle reason for the adoption of this form in these countries is that most of the investments are in manufacturing enterprises, and local incorporation gives a degree of local consumer acceptance frequently withheld from foreign organizations. There are other important reasons for incorporating abroad, including certain advantages with respect to United States and foreign taxes.

Direct branches of American companies are concentrated in industries producing raw materials destined to a large extent for the United States market. Two-thirds of the branch investment is in these industries. Thus, 40 percent of the amount invested in Latin American republics and the "all other countries" area of table 6, which produce many of the raw materials imported into the United States, is in branch operations, and 75 percent of the investments in these branches are in the petroleum, mining, and agriculture industries.

About half the number of all branches established abroad is located in these areas, but they account for about 80 percent of the amount invested in branches. This is because the operations in these areas include the largest branch units, such as oil companies, metal producers, and fruit or sugar plantations.

In other areas, a relatively small investment by branches of United States corporations is accounted for by a relatively large number of units. This is reflected in an average size of \$2½ million per branch in the Latin American Republics, and "all other countries" areas, and an average size of about \$0.5 million in the rest of the world. The establishment of branches in Canada and Latin America is encouraged by provisions of the United States tax laws which reduce the tax rates applicable to Western Hemisphere Trade Corporations, i. e., United States corporations operating entirely

within the Western Hemisphere but outside of the United States.

### Comparison with previous estimates

The new valuation of American direct investments abroad in 1950 is \$1.7 billion lower than estimates in use up to now. These estimates were based on the wartime Treasury census and brought up to date with annual adjustments for estimated capital movements and reinvested earnings. However, there are many factors affecting the foreign book valuations of these investments which could not be measured accurately until reports based upon the books of the foreign enterprises became available. The census was necessary to determine these changes, and the results indicate the need for periodic enumerations to permit the compilation of current data.

Major factors accounting for the downward revision of the value of foreign investments include the elimination, from

Table 6.—Value of United States direct investments in foreign countries, by area and industry, and by foreign subsidiaries and branches, 1950

(Millions of dollars)

	Total, all areas	Canada	Latin American republics	Western Europe	Western European dependencies	All other countries
<b>All industries:</b>						
Subsidiaries.....	3,463.0	3,143.1	2,584.1	1,855.8	338.4	741.4
Branches.....	3,340.5	421.0	2,090.0	117.3	01.4	610.0
Total.....	11,304.1	3,664.1	4,674.0	1,773.2	439.8	1,381.5
<b>Agriculture:</b>						
Subsidiaries.....	319.2	17.0	257.1	.8	8.2	36.6
Branches.....	226.7	2.6	218.5	.8	2.1	2.2
Total.....	544.9	20.6	475.6	.8	9.3	38.7
<b>Mining and smelting:</b>						
Subsidiaries.....	642.2	262.2	193.4	10.9	71.4	56.2
Branches.....	471.3	32.1	422.0	.8	19.3	.1
Total.....	1,113.5	334.3	617.4	11.7	90.7	56.3
<b>Petroleum:</b>						
Subsidiaries.....	1,016.8	300.4	542.7	410.7	242.0	342.2
Branches.....	1,231.3	57.7	847.3	24.1	38.8	642.4
Total.....	2,248.0	418.1	1,390.0	434.8	280.8	984.6
<b>Manufacturing:</b>						
Subsidiaries.....	3,581.2	1,797.2	942.5	948.9	0.3	150.2
Branches.....	203.3	84.1	131.0	21.6	1.8	24.6
Total.....	3,784.5	1,881.4	1,073.5	970.5	2.1	174.8
<b>Transportation, communication and public utilities:</b>						
Subsidiaries.....	1,038.7	280.0	728.8	12.4	6.0	37.7
Branches.....	480.5	23.5	323.3	15.0	11.2	19.0
Total.....	1,519.2	294.4	1,052.1	27.4	17.2	56.7
<b>Trade:</b>						
Subsidiaries.....	574.2	211.5	145.3	161.7	4.0	49.7
Branches.....	184.3	28.0	95.0	21.3	0.1	30.3
Total.....	758.5	239.5	240.3	183.0	4.1	80.0
<b>Finance and insurance:</b>						
Subsidiaries.....	240.1	137.1	49.7	27.3	.3	5.6
Branches.....	220.0	180.1	35.0	10.6	—1.1	—2.6
Total.....	460.1	317.2	84.7	37.9	—0.8	2.9
<b>Miscellaneous:</b>						
Subsidiaries.....	182.4	60.1	30.8	68.7	.7	17.3
Branches.....	54.6	0.0	17.5	22.3	.5	7.1
Total.....	237.0	60.1	48.3	91.0	1.2	24.4

Source: U. S. Department of Commerce, Office of Business Economics.

the present census, of enterprises now within Communist territories (\$300 million), the effects of war damage in Germany, Austria, and the Far East (\$200 million) and the reduction in the dollar value of foreign enterprises resulting from the devaluation of the currencies of the countries in

(Continued on page 19)

proportion of establishments which failed to report the date of acquisition is rather large (12 percent), when those single unit establishments which did report are arrayed by age of firms, the agreement with the business population data presented here for retail trade is striking.

The median age of 1948 Census single unit establishments (2.6 years) agrees with that found for the 1948 retail business population. Furthermore the two cumulative age distributions are very similar up to the age of 4½ years when the business population information breaks off.

### Age composition of firms sold or liquidated

Table 7 presents, by industry division, the median ages of businesses sold or liquidated. Comparison of these data with the other median age tables clearly indicates that the average age of firms sold or liquidated is much lower than attained by new firms or than that of concerns in operation. This supports the findings, discussed above, that problems of survival are most formidable in earlier years of business life.

### Survival patterns vs. age distributions

Age distributions of existing businesses or of firms sold or liquidated have sometimes been used to represent survival patterns of newly acquired businesses. It is of interest, therefore, to examine the actual relationship between survival patterns and age distributions of (a) operating businesses and (b) firms sold or liquidated. It can be shown that only under static conditions—that is, births equalling deaths over an extended period of time, and the number of operating businesses remaining constant with respect to both level and age distribution—will the age distributions give a true image of the survival pattern of new firms.

The above conditions have not been approached except possibly for rather brief intervals of time. As may be seen from the long-term growth of the business population, business births have, on the average, exceeded business deaths. The postwar period was characterized by very

rapid growth in the number of operating businesses until the middle of 1948 when the business population leveled off. However, throughout the period, young firms were found to be the most vulnerable, having death rates considerably in excess of older firms.

The relationship between the survival patterns of firms acquired in 1944 and of firms in operation December 31, 1951, for all industries combined can be seen in the first chart. These particular years were chosen to allow showing each of the distributions up to the maximum age present data permit. The use of other years would not affect the picture significantly.

The cumulative age distribution of firms in operation December 31, 1951, exceeds the survival pattern of firms acquired in 1944 at all ages and both these distributions exceed the cumulative age distribution of firms sold or liquidated during 1951 (not shown in the chart). Considerable error would obviously be introduced by substituting any one of these distributions for one of the other two.

It is of interest that the relationship between the survival pattern and the two age distributions found for all industries combined is duplicated in only two of the major industry divisions—finance and the service industries. In wholesale trade, the cumulative age distribution of firms in operation is not greatly different from the survival pattern, but both exceed the cumulative age distribution of firms sold or liquidated. The same tendency is apparent, particularly at the younger ages, in contract construction and in transportation. In the remaining major industry divisions—retail trade, manufacturing and mining—although the survival patterns and the cumulative distribution of firms sold or liquidated nearly coincide, the cumulative age distribution of firms in operation far exceeds both.

The similarities or the differences between the distributions within the industries can, of course, be explained through consideration of such factors as past patterns of acquisitions in the industry together with the survival experience of newly acquired firms, and the recent rate of growth or decline in the industry.

## U. S. Direct Investments in Foreign Countries

(Continued from Page 11)

which they are located. This item can not be accurately evaluated but may be well in excess of \$500 million.

Other reductions have been made to eliminate certain companies no longer considered United States direct investments, such as foreign branches and subsidiaries of enterprises incorporated here but owned by foreigners (\$240 million) and foreign corporations whose stock is widely held in the United States but without American-controlling participation in management (\$140 million).

Finally, certain items such as exploration losses and depletion charges, which appear as capital outflows in the balance of payments, are not included as capital investments in the books of the reporting companies; these items amounted to approximately \$200 million by the end of 1950. To some extent these reductions in the former estimates were offset by investments made since the war which were not previously recorded, as well as various upward adjustments on the foreign books.

### Technical Notes

#### Census definitions and methods of compilation:

**Definition:** As used for the purpose of this census, the term foreign direct investments includes the following:

1. The value of the United States equity in foreign business organizations owned to the extent of 25 percent or more of the voting securities of the foreign corporations, by persons, or groups of affiliated persons, ordinarily resident of the United States, and analogous interests in partnerships and other organizations.
2. The United States equity in foreign corporations whose voting stock is publicly held within the United States to an aggregate extent of 50 percent or more but distributed among stockholders so that no one investor or affiliated group of investors owns as much as 25 percent.
3. Outright ownership of real property, either that property held solely for the personal use of the owner, or of a sole proprietor type of business enterprise.
4. The net assets of foreign branches of United States companies. A branch is defined as a

business enterprise conducted abroad by a United States corporation in its own right and not through a subsidiary foreign company.

The United States equity in these types of controlled foreign enterprises includes the book value of all capital stock held in the United States, whether by the parent company or others, the equity of these stockholders in surplus and surplus reserves, the net balance of intercompany accounts between the foreign enterprise and its parent organization or United States affiliates of the parent organization, and long-term indebtedness payable to the parent company or affiliated United States persons, to the extent that information regarding the latter indebtedness was available.

Some information was not specifically requested regarding the extent of the foreign organizations' liabilities to United States interests other than the parent, or regarding the assets held in the United States by the foreign organizations aside from accounts payable by the parent company, the data may in some cases overstate or understate the equity in net foreign assets controlled by United States interests in direct-investment enterprises abroad.

**Scope:** Replies to the census were mandatory under authority granted in the Bretton Woods Agreements Act. Forms and instructions were mailed to all known holders of reportable investments. Foreign direct investments not included in the census are probably relatively insignificant in relation to the total value reported, although they may be large in number.

Reports for investments located in countries with Communist governments were incomplete, and, when reported, the information was generally applicable to an earlier date and was unreliable. Consequently, investments in these countries except Yugoslavia have been omitted entirely from the 1950 data.

**Values:** The dollar values represent the amounts carried on the books of the foreign organization converted into United States dollars. Where these conversions were ordinarily made on their own books by reporters they were required to submit their reports in both foreign currency and United States dollars.

If the reporter did not ordinarily convert the foreign currency into United States dollars, the report was submitted in foreign currency only. Reports submitted in foreign currencies only were converted to United States dollars by using the average rate of conversion derived from reports employing both currencies. Reporters that submitted statements in both currencies usually converted to United States dollars by using the exchange rate current at the date of the report to convert current assets and liabilities.

Fixed assets and related depreciation reserves were generally converted at the rate current at the time the assets were acquired. To the extent that fixed assets were acquired at exchange rates higher than the rate of exchange current at the date of the report, this method of converting to United States dollars resulted in average conversion rates somewhat higher than the rates current at the end of 1950.

This method is different from that employed in previous surveys where, generally, all amounts were converted at the then current rates of exchange. The values arrived at conform as nearly as possible to standard accounting practices but, as mentioned in the text, they are generally lower than market values or replacement costs at current price levels.

**Industry classification:** The reports submitted were financial reports consolidating all the activities of a foreign corporation or branch operation. No breakdown based on type of activity was required. The reports were therefore classified on the basis of what was considered to be the major field of activity.

In a few instances, foreign corporations have established subsidiary companies to handle incidental functions which might ordinarily have been the responsibility of a division within



the foreign parent company. These organizations were classified in the category of the foreign parent organization when located in the country of the parent.

The industry groups used in the census compare with similar groups of the Standard Industrial Classification except in mining and smelting, and petroleum. Smelting operations are classified in the manufacturing group in the Standard Industrial Classification but not in the present census, because smelting facilities are considered a subsidiary operation to mining.

The petroleum group as used in the census combines extractive and exploratory activities, refining, tankers and pipelines owned by petroleum companies and distribution facilities. These activities are classified by the Standard Industrial Classification as mining, manufacturing, transportation and wholesale or retail trade, respectively.

**Geographic and industrial allocation:** In those cases where the "controlled" foreign corporation owned 50 percent or more of the voting securities of another foreign corporation oper-

ating in a different foreign country or in another industry in the same country, a report was required covering the second corporation as a "secondary foreign corporation." Included in the category of "secondary foreign corporation" were the branch operations of "controlled" foreign corporations in countries other than the country in which the first or "primary" corporation was located.

In such cases, the total equity of the primary corporation in the secondary corporation as it appeared on the books of the latter was included in computing the United States equity in the primary corporation. The United States equity in the secondary corporation was deducted from the United States direct investment in the country or industry of the primary and allocated to the country or industry of the secondary corporation. The United States equity in the secondary corporation was computed by allocating the equity of the primary organization in the secondary organization according to the proportional investment of United States and foreign stockholders and creditors in the primary organization.

## Balance of Payments Trends

(Continued from Page 8)

creased production abroad, principally in Canada. The cotton carryover from the previous crop in other producing countries was comparatively large, and, as the new crop became available the pressure to dispose of excess stocks increased.

The decline in tobacco sales to the United Kingdom may in part be attributed to import restrictions by that country, but stocks which had been accumulated during the previous season are available to supplement the lower imports.

The remainder of the decline in exports was distributed among all major commodity groups. The decline in cotton textiles slowed down, however, while exports of industrial machinery showed the first major decline after an upward movement which had continued for about 2 years. The general decline affected our exports of finished manufactures as well as coal, petroleum products and industrial chemicals to nearly all countries, not only those which tightened their exchange restrictions.

The decline in foreign demand coincided with a definite weakening in inflationary pressures in some of the major industrial countries which resulted in a slower rise in industrial activity, and in some countries even in a small decline. The reduced strain upon productive facilities permitted a rise in the portion of total demand which was met from within these countries, and at the same time provides the opportunity to increase their export capacity.

To some extent increased competition from abroad was already felt by our export industry but a further intensification may be expected as export capacity abroad is expanded and more fully utilized.

## Progress in correcting imbalances abroad

Although some American exporters may have been affected adversely, the progress in adjusting the imbalance in world trade has again been resumed. The earlier improvement reduced the need for Government assistance, at least to the relatively well developed foreign countries, and the renewed improvement will operate in the same direction.

Merchandise imports into the United States remained generally at the high level reached early in the year. The decline in value from the preceding quarter can largely be accounted for by lower prices for raw materials, such as rubber, and some seasonal decline in the volume of imports. As long as domestic business activity remains at the current high level major changes in imports are unlikely.

Service transactions contributed considerably to the rising strength in the foreign financial position.

Net transportation receipts by the United States declined to \$70 million and were about \$100 million less than during the third quarter of 1951. Smaller exports of coal and grain on United States vessels and lower rates for bulk shipments were the main factors in the decline.

Tourist expenditures at their seasonal peak in the third quarter were about 10 percent higher than last year. About half of the rise accrued to Western Europe and the other half

to Canada. The lower fares and increased carrying capacity of planes resulting from the introduction of tourist-class flights appears to have been a major factor in stimulating travel to Europe.

The rise in miscellaneous service expenditures by the Government reflects both rising troop expenditures abroad as well as the first payments of our share in the cost of construction of "infra-structure" facilities for the armed forces of all NATO countries. Military expenditures abroad, whether for services or commodities, are likely to rise further and provide increasing amounts of dollar exchange to foreign countries.

## Government aid and private investments lower

Economic aid to foreign countries declined somewhat from the extraordinary high level during the previous quarter. Military aid rose slightly.

Government loans include an Export-Import bank advance of \$154 million to France on orders by our armed forces for military equipment which ultimately will be transferred under the military aid programs.

Direct investments receded from the unusually high rate during the preceding quarter, which was featured by large security issues by American-controlled Canadian companies. The decline of new issues explains largely the decline in direct investments in Canada, which nevertheless continued at a substantial rate.

Smaller shipments of merchandise to Brazil, and consequently smaller advances, were the major factors in the reduced capital outflow to Latin America. This affected direct investments as well as short-term loans.

With respect to portfolio capital, the reversal from outflow during the second quarter was in part due to a repatriation of capital formerly invested in Canadian securities, as mentioned above. Also, new issues of World Bank bonds were not repeated until October.

The sharp change in capital movements from the second to the third quarter should not be interpreted as an equally marked change in basic trends. It represents a short term reaction to the far greater than average capital outflow in the preceding period.

## Summary

The over-all balance of payments situation reflects, therefore, the relatively rising rate of business activity here and some slackening of demand abroad. Basically it is this combination of economic conditions which was responsible for the decline of the export surplus of this country, and consequently for the movement of gold and dollar balances in favor of foreign countries. Temporary circumstances, however, have considerably accentuated the change. During the last months of this year these temporary conditions can be expected to lose their force so that the export surplus may rise again and the accumulation in foreign reserves diminish. But such a change should not be taken as an indication that the basic improvements in international transactions did not continue.